



**COMMUNITY DEVELOPMENT COMMISSION
of the County of Los Angeles**

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William K. Huang
Acting Executive Director

October 14, 2008

Honorable Board of Commissioners
Community Development Commission
of the County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Commissioners:

**APPROVAL OF THE ASSUMPTION OF A COMMUNITY DEVELOPMENT BLOCK
GRANT LOAN AND LOAN AGREEMENT FOR 67 UNITS OF AFFORDABLE
HOUSING LOCATED IN THE CITY OF SANTA CLARITA
(District 5) (3 Vote)**

SUBJECT:

This letter requests that your Board approve the assumption of a Community Development Block Grant loan by Mercy Housing California XLIII to facilitate the acquisition and rehabilitation of Santa Clara Terrace, a multifamily rental housing development located in the City of Santa Clarita.

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that the approval of the purchase and rehabilitation of the Santa Clara Terrace development is exempt from the provisions of the California Environmental Quality Act (CEQA), as described herein, because the project includes activities that will not have the potential for causing a significant effect on the environment.
2. Approve assumption of an existing Community Development Block Grant (CDBG) loan in the amount of \$500,000 by Mercy Housing XLIII (Developer) plus accrued interest for a total of \$1,600,000, in order to facilitate the Developer's acquisition and rehabilitation of Santa Clara Terrace (Project), a 67-unit multifamily rental housing development located at 27077 Hidaway Avenue in the City of Santa Clarita.

3. Authorize the Acting Executive Director to negotiate a Loan Agreement with the Developer to update the loan terms to the Commission's current standards.
4. Approve the replacement of the current Regulatory Agreement and the current Deed of Trust with a new Covenants, Conditions and Restrictions and a new Deed of Trust that updates the loan terms to the Commission's current standards.
5. Authorize the Acting Executive Director to execute the Loan Agreement, which is attached in substantially final form, and all related documents, including the Covenants, Conditions and Restrictions and Deed of Trust, following approval as to form by County Counsel.
6. Authorize the Acting Executive Director to execute documents to subordinate the loan to permitted construction and permanent financing, to execute any necessary intergovernmental, interagency, or inter-creditor agreements, and to execute and modify all related documents as necessary for the implementation of the Project.

PURPOSE /JUSTIFICATION OF RECOMMENDED ACTION:

The purpose of the recommended actions is to approve assumption of a CDBG loan by the Developer and negotiation of a Loan Agreement for Santa Clara Terrace, an affordable multifamily rental housing development located at 27077 Hidaway Avenue in Santa Clarita. This approval is critical to the Developer's ability to acquire the site and leverage other non-County funding sources.

FISCAL IMPACT/FINANCING:

There is no impact on the County general fund.

The Commission is recommending assumption by the Developer of an existing CDBG loan in the amount of \$500,000 and approximate accrued interest of \$1,100,000, for a total of \$1,600,000, to facilitate acquisition and rehabilitation of the Project.

The renegotiated loan will be evidenced by a Promissory Note and secured by a Deed of Trust, with the term of affordability enforced by a recorded Covenants, Conditions and Restrictions document. All prior loan documents will be replaced with the renegotiated documents.

A Financial Analysis is provided as Attachment A.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS:

The recommended actions will allow the assumption of a CDBG loan by the Developer under a new Loan Agreement with the Commission, to be executed by the Acting Executive Director following completion of financial arrangements and approval as to form by County Counsel. The Loan Agreement will incorporate affordability restrictions and provisions requiring the Developer to comply with all applicable federal, state, and local laws.

The Project site was initially purchased by the Commission using CDBG funds. In 1984, the Commission sold the site to SHB Financial Corporation (SHB), who constructed a 67-unit development on the site with two and three-bedroom units divided among 16 town-home styled buildings.

In the original transaction, SHB issued a promissory note to the Commission in the amount of \$500,000 with a 12-year deferred-payment term and interest accruing at 10% per year until the note was paid in full. However, the note was not paid upon maturity and there is now a total outstanding amount of approximately \$1,700,000.

The Developer has agreed to purchase the site and assume the existing loan. The Developer, a limited partnership, will become the legally responsible party under the CDBG loan. The Developer will assume \$1,600,000 of the approximate \$1,700,000 outstanding loan amount. The loan balance above \$1,600,000 will be granted to the Project.

The Project's rehabilitation, estimated at approximately \$35,000 per unit or approximately \$2,380,000 total, will include electrical, plumbing and HVAC upgrades inside the units. Window replacement, exterior painting and an exterior lighting upgrade are also included in the rehabilitation plan. The rehabilitation will not include any substantial changes to the existing structures or to the physical layout of the property. The total number of units will be maintained.

The Project will consist of 67 units. Thirty-six units will be set aside for households with incomes at or below 60% of the area median income (AMI), as defined by the U.S. Department of Housing and Urban Development (HUD) for the Los Angeles-Long Beach Metropolitan Statistical Area, adjusted for household size. Thirty units will be set aside for households at 50% AMI. The remaining unit will be set aside for the manager and will have no income restrictions. The units will remain income-restricted for 55 years.

These affordability restrictions will necessitate that 30 of 67 households whose incomes have moved above qualifying levels will need to permanently relocate. The remaining tenants may need to move from their units for 1-3 days while improvements are completed. The Developer has hired a relocation consultant to

prepare a relocation plan to address the requirements according to both state and federal law, at an estimated cost of \$811,911 to the Developer.

The Developer will implement a supportive services plan to meet the needs of the residents. An on-site service coordinator will facilitate these services, which are anticipated to include after school tutoring, computer education and financial literacy.

The City of Santa Clarita has made a loan commitment in the approximate amount of \$2,750,000. The California Finance Housing Agency has committed approximately \$8,300,000 for the construction phase and \$4,950,000 for the permanent phase.

ENVIRONMENTAL DOCUMENTATION:

Pursuant to Title 24 of the Code of Federal Regulations, Section 58.35 (a)(3)(ii), this action is excluded from the National Environmental Policy Act because it involves activities that will not alter existing environmental conditions. The action is exempt from the provisions of CEQA pursuant to State CEQA Guidelines Section 15301 because it does not have the potential for causing a significant effect on the environment.

IMPACT ON CURRENT PROGRAM:

The requested actions will increase the supply of affordable housing for low-income families in the County of Los Angeles.

Respectfully submitted,


for WILLIAM K. HUANG
Acting Executive Director

Attachments: 2
WKH:CBB

ATTACHMENT A
HOUSING FINANCIAL ANALYSIS
Santa Clara Terrace

	TOTAL	PER UNIT
USES		
Development Costs	\$13,610,677	\$ 203,144
SOURCES		
<u>Construction Phase</u>		
CalHFA (Tax-Exempt Financing)	\$ 8,300,000	
CalHFA HAT	\$ 700,000	
LA County CDBG	\$ 1,600,000	
City of Santa Clarita	\$ 1,592,741	
Seller Credit	\$ 100,000	
Deferred Costs / Interest	\$ 241,260	
Deferred Developer Fee	\$ 1,011,220	
LIHTC Equity - 4% *	\$ 65,356	
Developer Equity	\$ 100	
Total Construction Sources	\$13,610,677	\$ 203,144
<u>Permanent Phase</u>		
CalHFA (Tax-Exempt Financing)	\$ 4,254,000	
CalHFA HAT	\$ 700,000	
LA County CDBG	\$ 1,600,000	
City of Santa Clarita	\$ 2,749,586	
Seller Credit	\$ 100,000	
Deferred Costs / Interest	\$ 38,900	
Deferred Developer Fee	\$ 735,740	
LIHTC Equity - 4% *	\$ 3,267,787	
Developer Equity	\$ 100	
Income from Operations (during rehab)	\$ 164,564	
Total Permanent Sources	\$13,610,677	\$ 203,144

*Proposed funding sources not currently committed.